

**The Board of Commissioners  
Veterans' Home Purchase Board:**

In planning and performing our audit of the financial statements of Veterans' Home Purchase Board ("VHPB") of the State of Mississippi, for the year ended June 30, 2003, we considered VHPB's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of a matter that is opportunity for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our finding and recommendation regarding this matter. This letter does not affect our report dated September 5, 2003, on the financial statements of VHPB.

We will review the status of this comment during our next audit engagement. We have already discussed this finding and recommendation with various VHPB personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter or to assist you in implementing the recommendation.

We wish to thank all employees for their support and assistance during our audit. This report is intended solely for the information and use of the board, management, and others within the agency and the State of Mississippi and is not intended to be and should not be used by anyone other than these specified parties.

*Breazeale, Saunders & O'Neil, Ltd.*

September 5, 2003

**VETERANS' HOME PURCHASE BOARD**  
**Independent Auditors' Finding And Recommendation**  
**With Respect To Internal Control**  
**For The Year Ended June 30, 2003**

**CONTROL ENVIRONMENT AND MONITORING**

As is the case with many small organizations, the size of VHPB's accounting and administrative staff precludes certain internal controls that would be preferred if the office/accounting staff was large enough to provide optimum segregation of duties. This lack of segregation of duties can somewhat be mitigated by the control environment and the related monitoring thereof.

The Board and management's philosophy and operating style influence the control environment, especially when the environment is dominated by a few individuals. The Board of Commissioners and management can demonstrate their level of commitment to an effective control environment by the extent to which they establish, communicate and reinforce policies. To enhance the control environment, we recommend:

- Management and the Board should ensure that the employees have a thorough understanding of the organizational structure, specifically how authority and responsibility are assigned.
- Management and the Board should ensure that its philosophy and operating style are communicated in writing to the employees. Such communication should include emphasis on the importance of integrity and ethical values.

Management and the Board should identify key competencies needed for accounting jobs and translate those competencies into requisite knowledge and skills.

As part of the implementation of the above recommendations, management should establish a risk assessment process to identify and consider risk implications at both the entity and activity level. At a minimum, this process should entail the Board and/or management periodically performing unannounced internal inspections of the details of cash receipts and disbursement activities and transactions.

The Board and management must remain closely involved in the financial affairs of VHPB to provide oversight and independent review.